

National Assembly for Wales

The long-term impacts of recession April 2010

This research paper provides an overview of the most recent and two previous recessions in Wales and the UK, based on economic and labour market indicators. It uses these data series to highlight and quantify the long-term impacts of previous recessions.



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National Assembly for Wales

The long-term impacts of recession
April 2010

Leon Gooberman

Paper Number: 10 / 010



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A National Assembly for Wales

The long-term impacts of recession

Research Paper

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Summary

This paper seeks to quantify periods of economic and labour market decline and recovery in Wales and the UK for the previous recessions ¹ of 1979 to 1981 and 1990 to 1991 as well as the most recent recession.

The causes of the recessions are not explored whilst forecasts for the economy and labour market are neither made nor implied.

Gross Domestic Product (GDP)

- The estimated decline in UK GDP ² (an estimate of total economic activity within a given region) during the recent recession was **similar** to the decline after 1979 and more than **twice** that of after 1990; and
- In the 1980s, pre-recession levels of UK GDP were not regained until **four years** after the start of the recession. The period in the 1990s was **three years**.

Unemployment (claimant count)

- In the 1980s, economic growth returned in Q (Quarter) 2 1981, but the claimant counts ³ (of those receiving unemployment related benefits) in Wales and the UK climbed until 1986. The claimant count in Wales and the UK did not return to pre-recession levels **prior** to the onset of the recession in 1990;
- In the 1990s, UK growth returned in Q4 1991, but the claimant counts in Wales and the UK rose until December 1992. Pre-recession levels in Wales and the UK were reached in 1997, **six and a half years** after the start of the recession; and
- From the start of the most recent recession, claimant count in Wales increased faster than in previous recessions. However, it remains **below** those recorded at an equivalent time since the start of these recessions.

Employment (employee jobs)

- After the recession of 1979 to 1981, pre-recession employment levels were not reached in the UK or Wales **prior** to the onset of the next recession in 1990;
- In the 1990s, pre-recession levels of employment were not regained in the UK for some **seven years**. The equivalent figure for Wales was **eight years**; and
- Since the most recent recession started, employment has reduced by 3.5 per cent in the UK and 3.7 per cent in Wales. However, the number of employee jobs is **above** those at an equivalent time since the start of previous recessions.

The economy and labour markets of Wales and the UK have taken a number of years to recover from the impacts of previous recessions.

¹ An economy is generally defined as being in recession if it has been contracting for two or more successive quarters.

² Comparable figures are not available for Wales. See the technical annex for further details.

³ Quarterly data for the broader measure of ILO unemployment is not available for Wales until 1992.

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The long-term impacts of recession

1. Introduction

The aim of this paper is to provide an overview of how the most recent and previous recessions have impacted upon the economy and labour markets of Wales and the UK. There is a particular focus on the impacts on the economy that can continue a number of years after the technical end of a recession. A recession is at a technical end when growth in UK Gross Domestic Product (GDP) has resumed.

The causes of the recessions are not explored and forecasts for the economy and labour market are neither made nor implied.

Recessions have different causes, characteristics and consequences, but three main stages can be identified:

1. Quarter-on-quarter declines in economic output;
2. Growth sufficient to enable the economy to reach the same level of output as achieved prior to the recession; and
3. Growth that enables economic output to exceed that which was achieved prior to the recession.

The labour market usually deteriorates rapidly during the first stage, before recovering during subsequent stages. However, the time needed for employment and unemployment to return to levels at or close to those achieved prior to the recession is usually substantial.

This paper provides data on decline and recovery for the UK recessions of Q(Quarter)3 1979 to Q1 1981, Q3 1990 to Q3 1991 and Q2 2008 to Q3 2009. ⁴ Quarterly figures for change in GDP for Wales are not available (see technical annex).

⁴ As per GDP figures for Q4 2009 released by the Office for National Statistics in February 2010.

2. Recessions in Wales and the UK

Q3 1979 – Q1 1981

The total peak to trough decline in UK Gross Domestic Product (GDP) was 6.2 percentage points. Claimant count in the UK peaked at over three million people (10.6 per cent of the workforce) in 1986. The highest level for Wales was some 170,000 people (13.3 per cent).⁵

Q3 1990 – Q3 1991

The total peak to trough decline in UK GDP was 2.6 percentage points. Claimant count in the UK peaked at just below three million (9.9 per cent) in 1992. The highest level in Wales was some 133,000 people (10.1 per cent).

Q2 2008 – Q3 2009

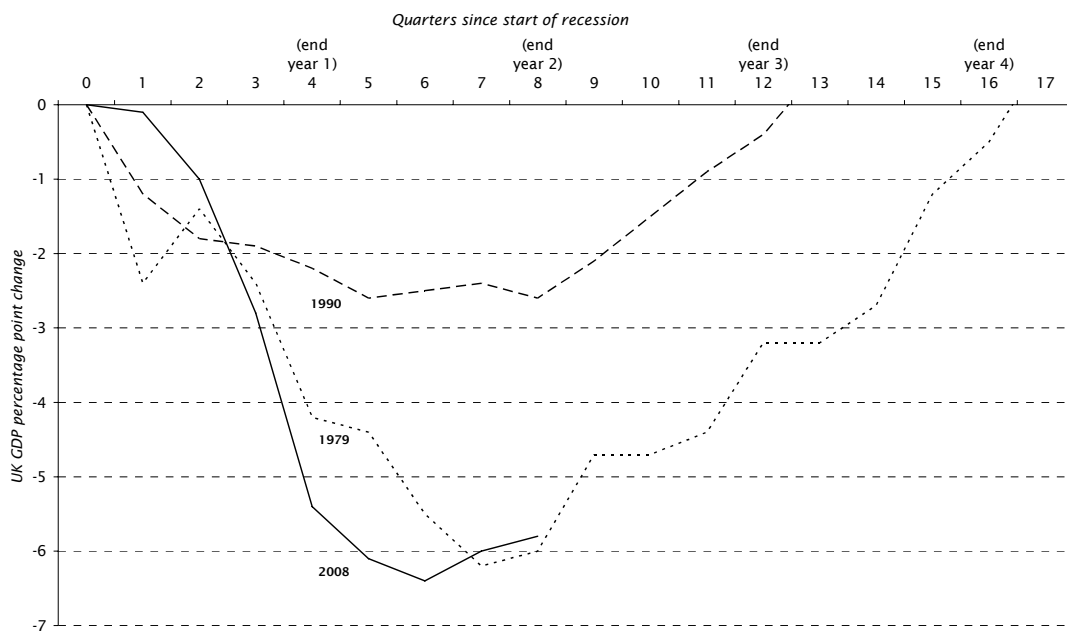
The UK entered recession in the second quarter of 2008. By the third quarter of 2009, UK GDP had declined by some 6.4 percentage points, although estimates may be subject to future revisions by the Office for National Statistics (ONS). Estimates released in April 2010 state that the economy grew by 0.4 percentage points in Q4 2009 and 0.2 percentage points in Q1 2010, meaning that the technical end of the recession was in Q3 2009.

In March 2010, the claimant count for the UK stood at 1.54 million people (4.8 per cent) and 75,700 people (5.3 per cent) in Wales. These numbers were almost double those at the start of the recession, but had declined between October 2009 and March 2010.

⁵ Claimant count data is the primary source of unemployment data used in this paper as full quarterly data for the broader and more accurate measure of International Labour Organisation (ILO) unemployment is **not available until 1992** for Wales.

3. Gross Domestic Product (GDP) ⁶

Figure 3.1: Percentage point changes in UK GDP since start of recessions

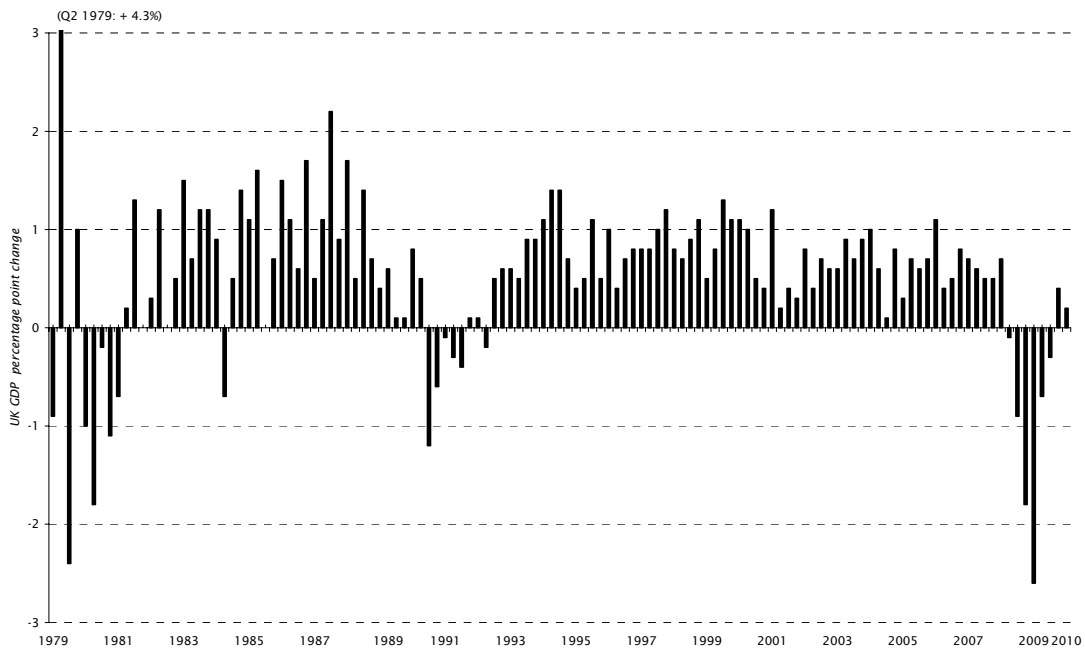


Source: [ONS](#)

- **1979 onwards:** The depth of the fall in GDP meant that the pre-recession level was not reached until Q3 1983, some **four years** from the start of the recession in Q3 1979.
- **1990 onwards:** From the start of the 1990s recession in Q3 1990, pre-recession levels of GDP were not regained for a further **three years** until Q3 1993.
- **2008 onwards:** The estimated decline in GDP during the most recent recession was steep. At minus some 6.4 percentage points, the peak to trough fall is over twice that of the 1990s and broadly equivalent to that experienced in the deep downturn of the early 1980s.

⁶ Comparable GDP figures are **not available for Wales**. See the technical annex for further details.

Figure 3.2: Quarterly percentage point change in UK GDP

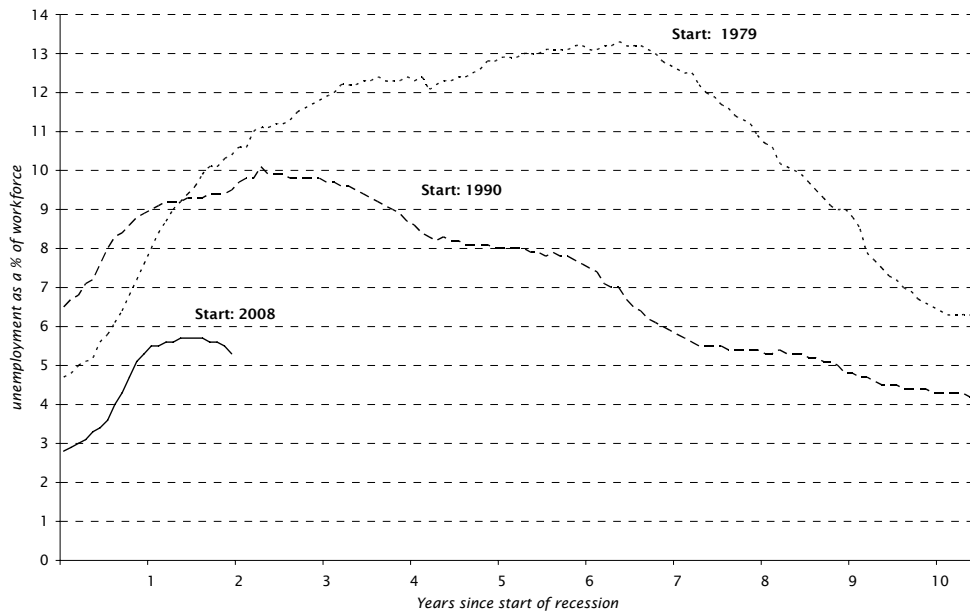


Source: [ONS](#)

- According to GDP statistics released by the Office for National Statistics in April 2010, the UK economy grew by 0.4 percentage points during the final quarter of 2009 and 0.2 percentage points in the first quarter of 2010.
- The most recent recession saw UK GDP fall for **six** successive quarters, compared to five during the 1990s. Between 1979 and 1981, GDP fell in seven out of nine quarters. Five of these were successive (see technical annex).

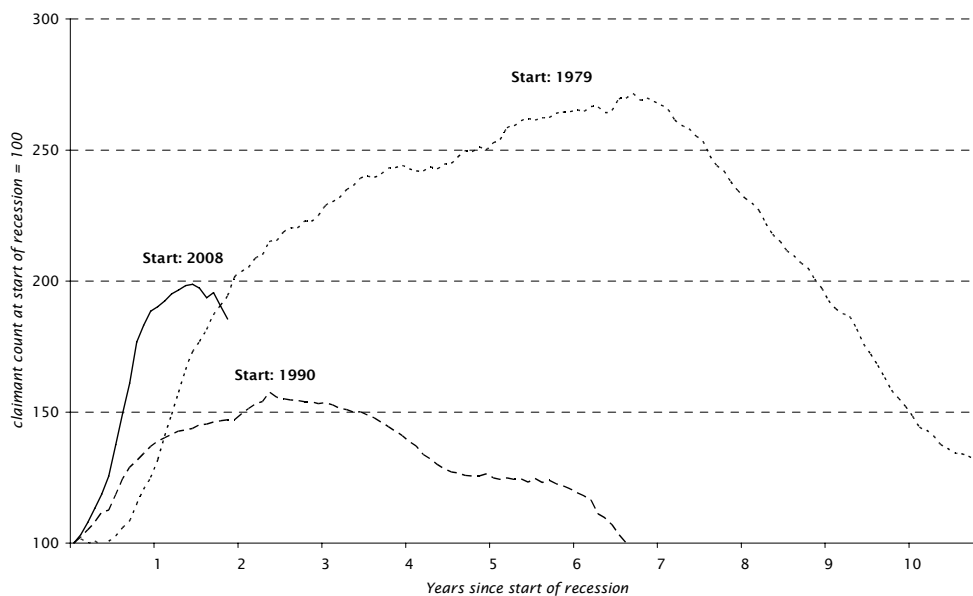
4. Unemployment

Figure 4.1: Claimant count rates in Wales since the start of UK recessions



Source: [ONS via NOMIS](#)

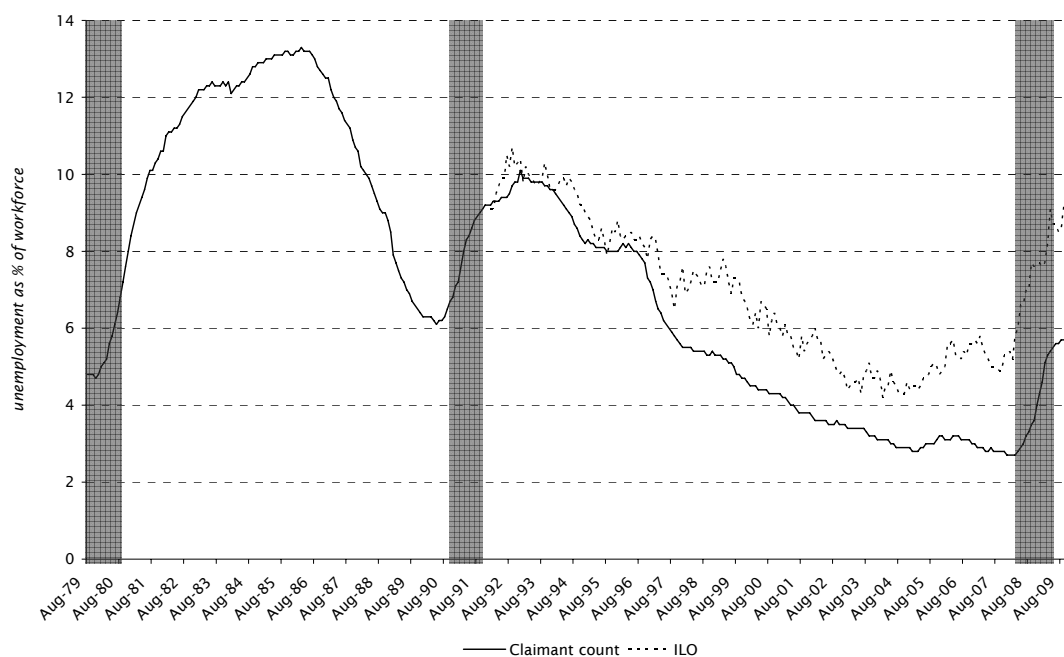
Figure 4.2: Changes in claimant count in Wales – indexed figures since start of UK recessions ⁷



Source: *Members' Research Service*

⁷ The index approach measures the **speed and duration of the increase in the number of people included in the claimant count**, with the claimant count at the onset of recession being defined as 100. As such, it does not take into account the fact that the **absolute level** of the claimant count (expressed as a percentage of the workforce) at the onset of the current recession was substantially **below** that of the previous two recessions.

Figure 4.3: Claimant count rate (1979 to 2010), ILO unemployment rate (1992 to 2010) in Wales

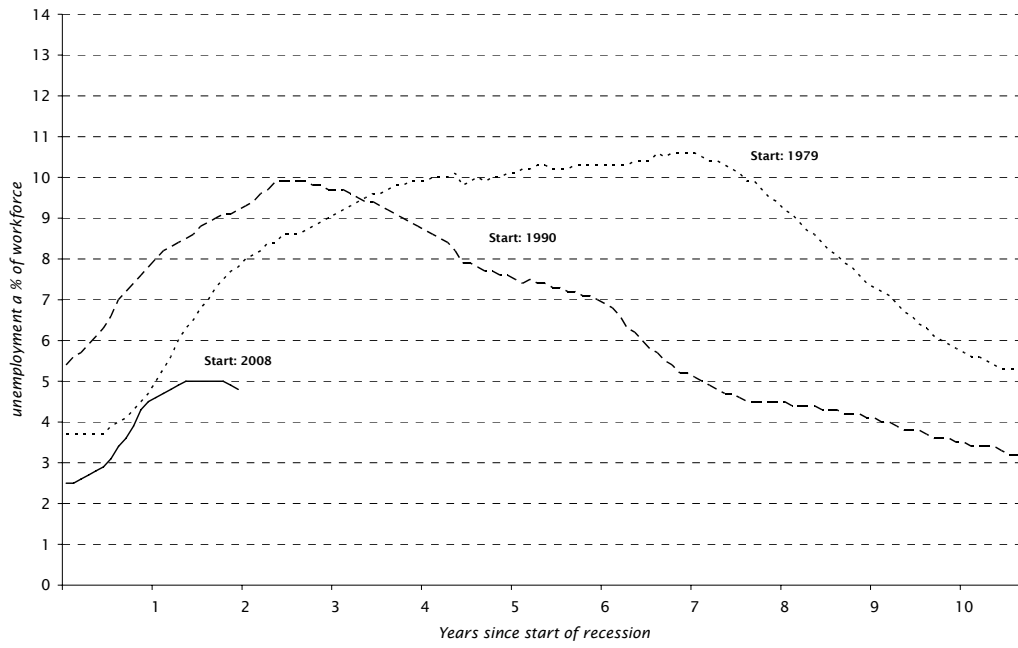


Note: shaded areas indicate UK recession

Source: [ONS](#), [ONS via NOMIS](#)

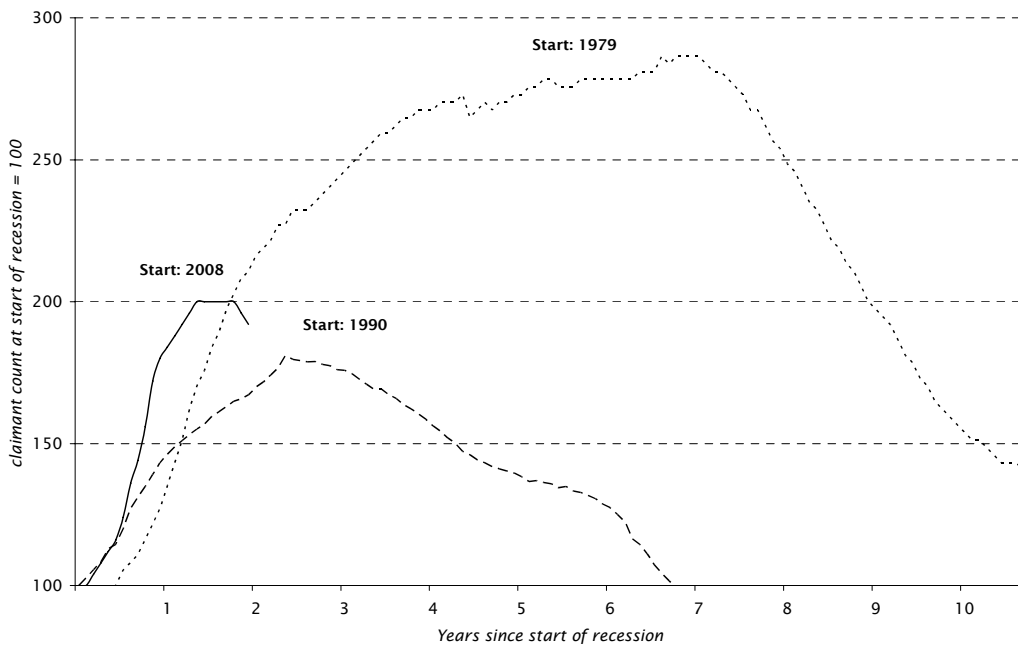
- **1979 onwards:** The UK economy began to grow again in Q2 1981. However, the claimant count rate in Wales continued to increase for a further **five years** until March 1986. Between these dates, the claimant count rate rose from 9.6 per cent to 13.3 per cent. This involved an increase of some 48,000 people. At its peak, the claimant count rate was some **2.7 times** greater than that at the start of the recession. The claimant count in Wales did not return to pre-recession levels **prior** to the onset of the next recession in 1990.
- **1990 onwards:** the UK economy began to grow in Q4 1991. Despite this, the claimant count in Wales rose for a further **year** until December 1992. Between these dates, the claimant count rate rose from 9.2 per cent to 10.1 per cent, involving an increase of 12,600 people. At its peak, the claimant count rate was some **1.5 times** greater than that at the start of the recession. Unemployment then declined, reaching pre-recession levels in April 1997, some **six and a half years** after the start of the recession.
- **2008 onwards:** At the start of the most recent recession, the claimant count rate in Wales stood at 2.9 per cent. By October 2009, the rate had almost **doubled** to reach 5.7 per cent, an increase of over 40,000 people. However, between October 2009 and March 2010, the claimant count dropped by 5,400 people (the rate fell by 0.4 percentage points).

Figure 4.4: Claimant count rates in the UK since the start of recessions



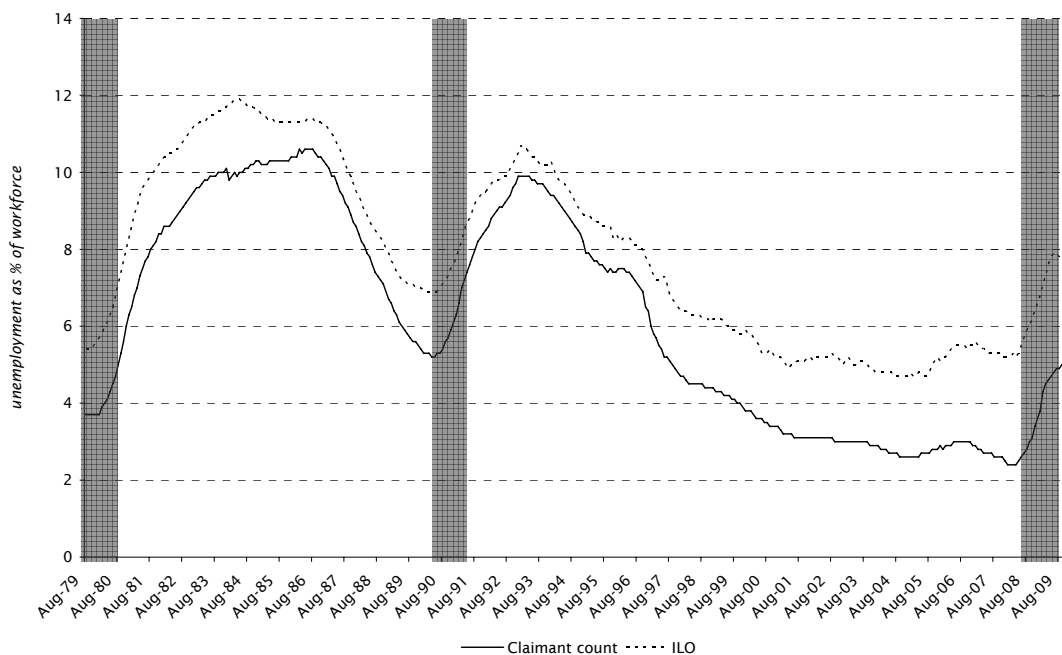
Source: [ONS via NOMIS](#)

Figure 4.5: Claimant count in the UK - index figures since start of UK recessions



Source: *Members' Research Service*

Figure 4.6: Claimant count rate, ILO unemployment rate in the UK: 1979 to 2010



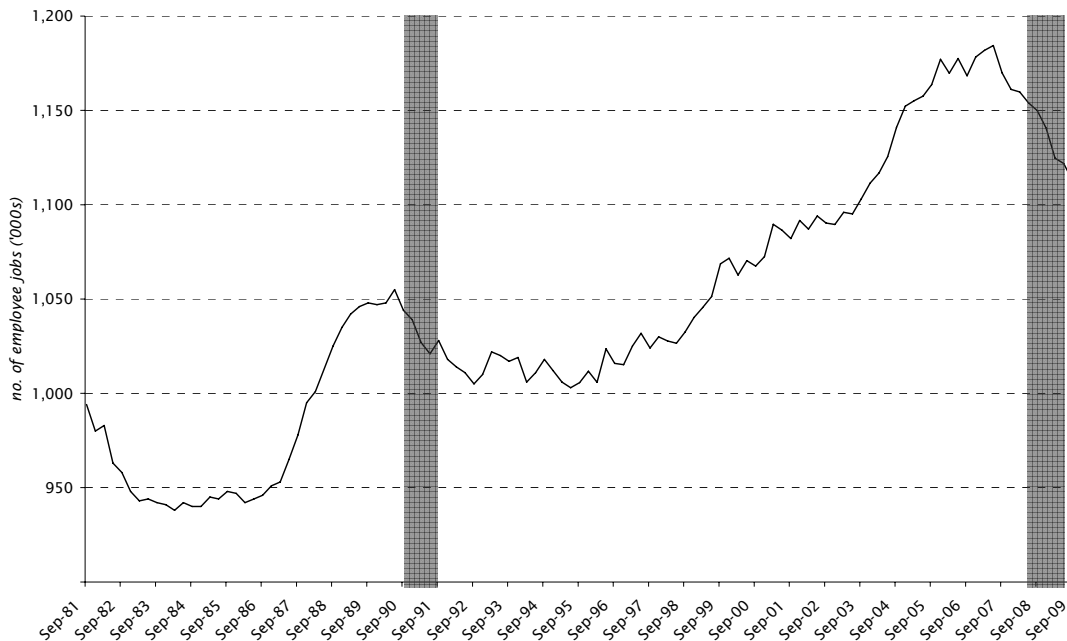
Note: shaded areas indicate UK recession

Source: [ONS](#), [ONS via NOMIS](#)

- 1979 onwards:** The UK economy began to grow again in Q2 1981. However, the UK claimant count increased for a further **five years** until March 1986. Between these dates, the rate rose from 7.5 per cent to 10.6 per cent, involving an increase of over 970,000 people. At its peak, the claimant count rate was some **2.8 times** greater than that at the start of the recession. The claimant count rate in the UK did not return to pre-recession levels **prior** to the onset of the next recession in 1990.
- 1990 onwards:** The UK economy began to grow in Q4 1991. Despite this, the claimant count rose for a further **year** until December 1992. Between these dates, the claimant count rate rose from 8.4 per cent to 9.9 per cent, involving an increase of over 450,000 people. At its peak, the claimant count rate was some **1.8 times** greater than that at the start of the recession. Unemployment then declined, reaching pre-recession levels in May 1997, some **six and a half years** after the onset of the recession.
- 2008 onwards:** At the start of the most recent recession, unemployment stood at 2.5 per cent. By October 2009, the rate had **doubled** to 5 per cent, an increase of over 800,000 people. However, between October 2009 and March 2010, the claimant count dropped by 84,000 people (the rate fell by 0.2 percentage points).

5. Employment

Figure 5.1: Employee jobs in Wales: 1981 to 2009 (comparable figures unavailable before 1981)



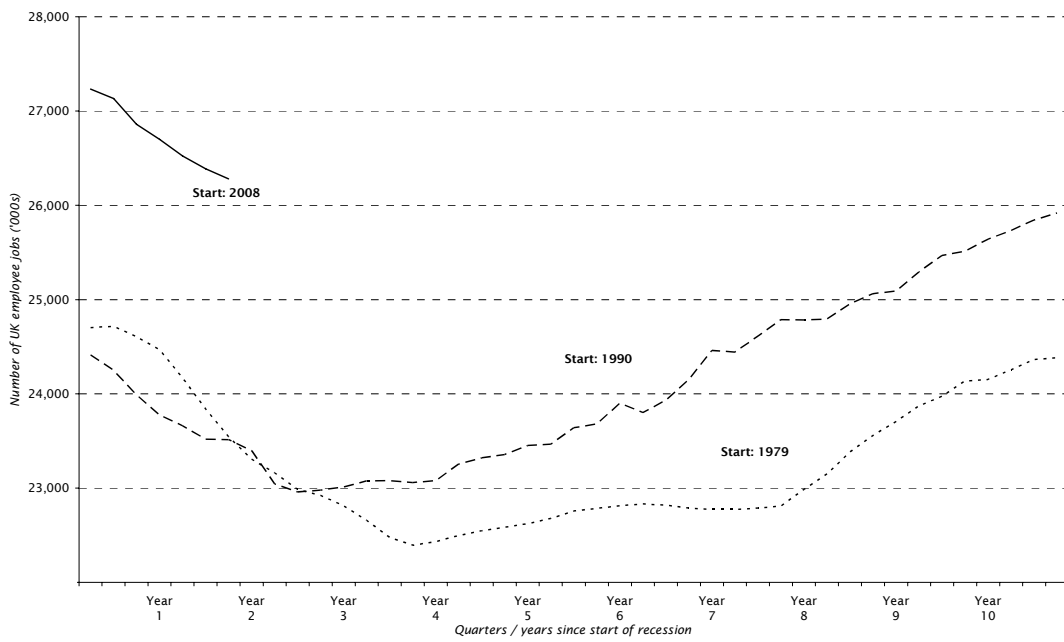
Note: shaded areas indicate UK recession

Source: ONS

- **1979 onwards:** Datasets for employee jobs in Wales are **not available on a fully consistent basis** prior to Q3 1981. However, contemporary statistics show the number of total employees in employment declining from a peak of some 1.03 million in 1979 to a trough of 885,000 in 1984. This was a drop of **14.1 per cent**. The number of employees then grew to 998,000 in 1990, meaning that the employment level at the start of the 1979 to 1981 recession was **not regained** prior to the start of the next recession.⁸
- **1990 onwards:** As measured by the current ONS data series, employee jobs in Wales declined from some 1.04 million at the start of the recession in Q3 1990 to a trough of some 1 million by Q3 1992. During this decline, employee jobs dropped by 2.6 per cent up to the resumption of economic growth in Q4 1991, then by a further 1.2 per cent to reach a trough in Q3 1992, **3.8 per cent** below pre-recession levels. Job numbers then recovered to reach pre-recession levels by Q1 1999, more than **eight years** after the recession began.
- **2008 onwards:** Employee jobs in Wales declined from some 1.15 million in Q2 2008 to some 1.11 million in Q4 2009. This is a reduction of **3.7 per cent**.

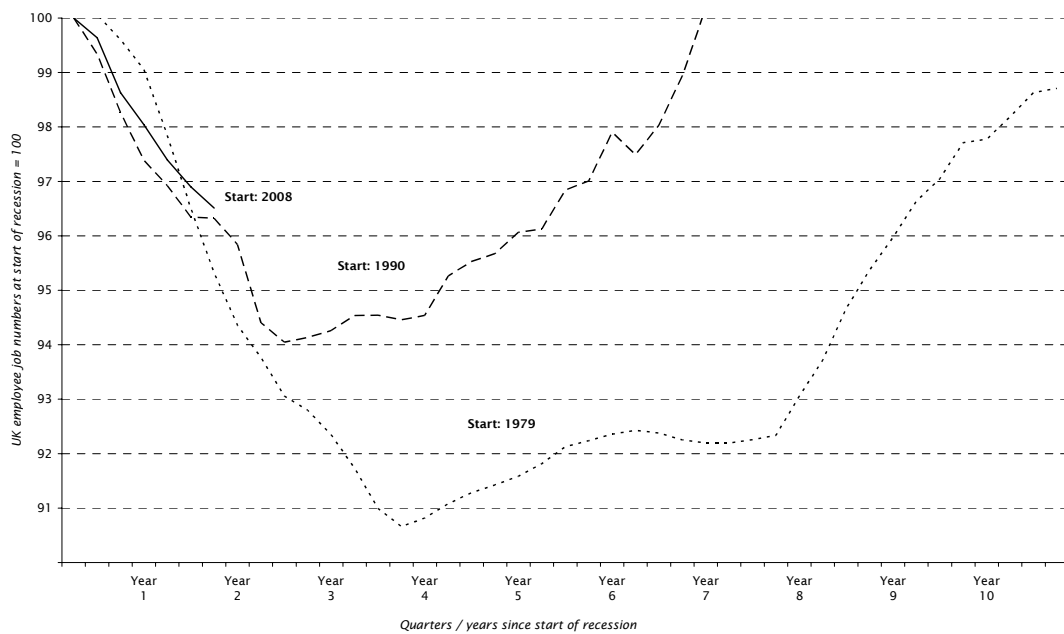
⁸ Welsh Office: Welsh Economic Trends No. 13 (1992).

Figure 5.2: Employee job numbers in the UK – absolute figures since start of UK recessions



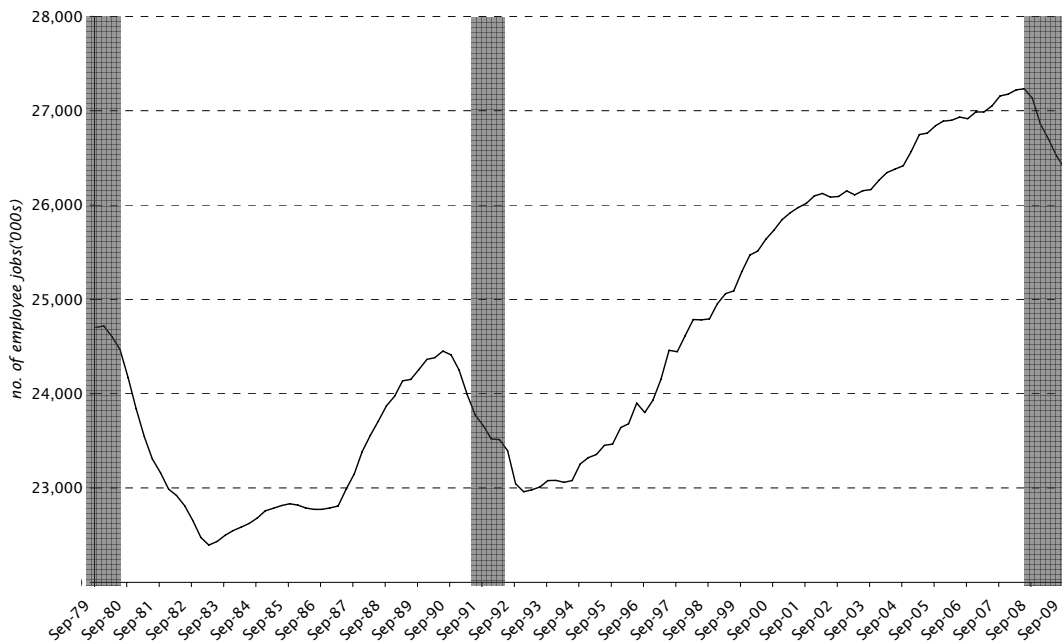
Source: [ONS](#)

Figure 5.3: Employee job numbers in the UK – index figures since start of UK recessions



Source: *Members' Research Service*

Figure 5.4: Employee jobs in the UK: 1979 to 2009



Note: shaded areas indicate UK recession

Source: [ONS](#)

- 1979 onwards:** Between the start of the recession and the resumption of economic growth in Q2 1981, UK employee jobs dropped by 5.6 per cent. The number of jobs then declined by a further 3.7 per cent, to reach a trough of **9.3 per cent** below pre-recession levels in Q1 1983. The total decline was some 2.3 million jobs. Pre-recession levels of employment were not reached **prior** to the onset of the next recession in 1990.
- 1990 onwards:** UK employee jobs had dropped by some 3.7 per cent by the resumption of economic growth in Q4 1991. UK employee jobs continued to decline after this date, and had dropped by a total of **5.5 per cent** by Q4 1992. The total decline was 1.3 million jobs. The number of jobs then began to recover. Pre-recession levels were regained in Q2 1997, some **seven years** after the start of the recession.
- 2008 onwards:** In the current recession, employee jobs in the UK have dropped by **3.5 per cent**. The total number of jobs lost between Q2 2008 and Q4 2009 was some 950,000. The rate of decline is broadly similar to that of previous recessions.

6. Conclusion

- In previous recessions, unemployment, as measured by the claimant count, rate for both Wales and the UK has increased quickly once the economy began its decline. This climb has, in the past, continued until after economic growth has resumed.
- As is the case with unemployment, employment is normally a 'lagging indicator'. In previous recessions, employment levels for both Wales and the UK have dropped from the start of economic decline and continued to do so after the technical end of the recession. Pre-recession levels of employment have not been regained for a number of years.
- There are a number of reasons for such 'time lag' effects in the labour market, including the:
 - numbers of new entrants to the labour market unable to find work, such as young people leaving education; and
 - reluctance of companies to recruit until business volumes appear to be growing sustainably.
- **Overall, the labour markets of Wales and the UK have taken a number of years to recover from the impacts of previous recessions.**

A. Technical Annex

Employment

Definition: The dataset used for employment is 'Employee Jobs'. It does not include the self-employed.

Source: Office for National Statistics (ONS) estimates of employee jobs are derived by applying movements calculated from short term employer surveys to a benchmark derived from the results of annual employment surveys. The benchmark has been derived from the Annual Employment Survey since 2001.

Methodology: The data is adjusted to take into account regular short – term seasonal changes. These seasonal changes can occur in labour market data for a number of reasons including holidays and recruitment patterns. For example, a large number of people leave full-time education and enter the labour market in the summer. To make it easier to identify the underlying movements in the labour market, changes due solely to seasonal influences are removed. This process is known as seasonal adjustment.

Availability: Fully consistent data for the UK level is available from 1952 to 2009. Fully consistent data for the Wales level is available from Q3 1981 to the present. Data on employee numbers (excluding the self – employed) in Wales is available for periods before 1981, but is not fully comparable with subsequent data due to methodological inconsistencies.

Gross Domestic Product (GDP)

Definition: GDP provides a measure of the total economic activity in a given region.

Methodology: A combination of approaches is used to measure GDP, comprising:

1. The value of the goods and services produced (the output measure);
2. The value of the goods and services purchased by households, by government, from overseas and by business in terms of investment in machinery and buildings (the expenditure measure); and
3. The value of the income generated mostly in terms of profits and wages (the income measure).

The first estimate of GDP growth is provided three and a half weeks after the end of the quarter. However, this figure may be revised up or down by further estimates, available eight and twelve weeks after the end of the quarter. Additional revisions may take place after these estimates have been published.

Source: ONS data to generate GDP estimates is derived from a number of sources, including large scale company surveys.

Availability: Quarterly figures for UK GDP are available from 1948 to 2009. However, the coverage for Wales differs in two important respects:

1. No figures for Welsh GDP are available after 1996. However, figures for GVA (Gross Value Added) are currently available from 1989 to 2007. GVA measures the contribution to the economy of each individual producer, industry or sector. Gross value added (GVA) is a measure of economic activity at basic prices, which includes taxes (less subsidies) on production but excludes taxes (less subsidies) on products.
2. To provide estimates of real growth in Welsh GVA/GDP, it would be necessary to adjust such figures to take account of Welsh inflation. However, a comprehensive regional price index for Wales does not exist, meaning that it is not possible to provide official GVA/GDP figures that take inflation into account. This means that official estimates of real year – on – year growth or decline in Welsh GVA/GDP are not available. Comparisons between Wales and the UK (and regions of the UK) can be made on the basis of current GDP/GVA per head (per capita). This enables Welsh GDP/GVA to be measured as a percentage of the UK average for any given year.

Recession

Definition: There is no universally accepted definition of an economic recession. However, the definition most commonly used in the UK is that an economy that has contracted for two or more successive quarters is in recession. This definition is generally used in this paper, although in keeping with common practice, the recession of the early 1980s is defined as starting with the sharp GDP fall of minus 2.4 per cent in Q3 1979, although there was a quarter of growth in Q4 of the same year.

The most severe form of recession is a depression. This is often defined as involving a peak-to-trough fall in GDP of ten per cent or more.

Unemployment

Definition: Two measures are currently in use to measure unemployment:

1. *International Labour Organisation (ILO):* this indicator is now the primary measure of unemployment. Based on a household survey, it is a count of the number of those who are out of work and want a job, have actively sought work in the last four weeks and are available to start in the next two weeks, plus those who are out of work, have found a job and are waiting to start in the next two weeks. It is always higher than the claimant count because some unemployed people are either not entitled to claim unemployment benefit (jobseekers allowance since 1997) or choose not to do so. For example, the current (December 2009 – February 2010) ILO rate for Wales is **9.0 per cent** of the economically active population aged 16 and over compared to the current (March 2010) claimant count rate of **5.3 per cent** of the workforce. However, the ILO dataset was not available on a quarterly basis for Wales until 1992. It is therefore **not used** in this paper as a main source, although figures from 1992 are graphed. The ONS has modelled consistent figures for UK ILO unemployment from 1971 onwards. These figures are also graphed; and
2. *Claimant Count:* the historical dataset is used in this paper. It measures the number of people who have been claiming unemployment related benefits.

Methodology: The historical claimant count dataset has sourced from the administrative records of Jobcentres and employment exchanges and relates to claimants aged 18 and over. Rates are workplace based. They are calculated as the number of claimants resident in each area as a percentage of workforce jobs plus the claimant count. Workforce jobs are the sum of employee jobs, self-employed jobs, HM forces and government-supported trainees. This historical dataset has two main adjustments:

- Whilst there have been considerable variations in unemployment benefit types and eligibility over time, the ONS has adjusted the data to allow for such changes, meaning that the data can be compared on a consistent basis; and
- The data is seasonally adjusted.

Availability: The historical dataset is available from 1971 to the present and provides full coverage for Wales and the UK.